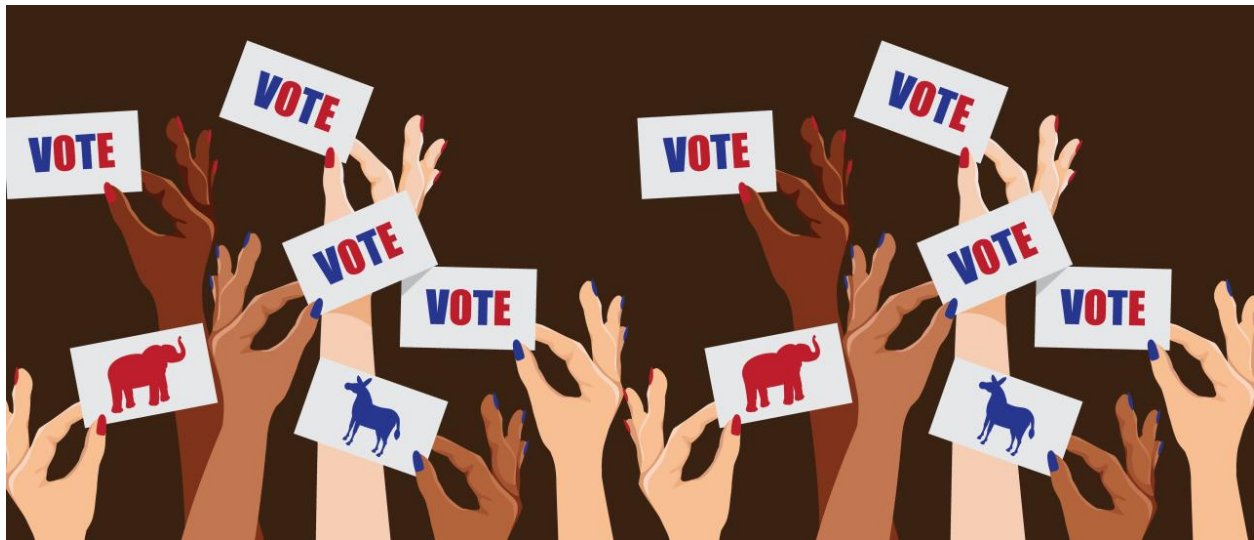


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# Voting for Political Influence



By [Massimo Massa](#) , INSEAD

## **Leading mutual funds vote to curry political favour rather than practice good governance.**

One of the realities of today's financial markets is the outsized shareholder voting power held by the leading mutual funds. In 2021, the top three asset management companies (BlackRock, State Street and Vanguard) owned around **23 percent of S&P 500 firms**. This made them the largest shareholders in **88 percent** of the leading United States-based companies.

Worryingly, it seems that these mutual funds are quite happy to use that shareholder voting power to please politicians and regulators, rather than to police underperforming companies. They are willing to play a political game and actively shift voting preferences to match the prevailing political mood in Washington.

## **Shifting political allegiance**

This conclusion is based on my [research](#), conducted with [Lei Zhang](#) from City University of Hong Kong. We focused on the voting behaviour of US

mutual funds over the 17-year period between 2004 and 2021. In particular, we looked at how fund managers **voted** on sensitive (and potentially political) shareholder proposals related to environmental and social issues and how this behaviour altered depending on which political party was in charge.

Overall support for environmental and social proposals was low, with less than 30 percent of leading funds voting in their favour during this period. However, we found that how fund managers voted actually changed at specific times to reflect the shifting balance of political power. This was regardless of voting recommendations of the proxy advisors, such as the Institutional Shareholder Services, which typically suggest voting in a certain way based on the best financial outcome for shareholders. It was also regardless of the individual fund manager's personal political beliefs. Instead, fund managers voted to gain their specific mutual fund family the most political capital.

During periods when the Democrats were in power, asset managers from the leading mutual funds were actually 30.33 percent more likely to vote in favour of stronger environmental and social proposals. Yet, this figure slipped to 22.97 percent when there was a split majority in Congress and plummeted to just 17.25 percent when the Republicans were at the helm. Demonstrating that these actions were politically motivated is the fact that this behaviour was not observed when we analysed voting patterns for shareholder proposals unrelated to environmental and social issues.

### **Keep your enemies close**

Even in today's online world, physical proximity clearly offers the chance for greater access and potential influence. Indeed, location was also a factor in how fund managers voted. Firms based closest to the corridors of power in Washington were even more likely to vote in line with the party in charge. The access offered by the physical closeness to the political movers and shakers allowed these funds to be even more attuned to the political preferences at any given time.

Political flexibility in voting behaviour was mostly concentrated among the top 10 biggest mutual fund groups. In fact, they were more likely to vote in

line with the political majority than other smaller funds. This suggests their size and clout gave them greater power to lobby politicians, further increasing their ability to align to the current political mood.

## **Responding to scrutiny**

Perhaps equally important, these larger funds also face far greater scrutiny from lawmakers due to their sheer size and influence. After all, BlackRock alone accounts for **around US\$10 trillion** in managed assets, more than is **traded annually** on the New York Stock Exchange. It is little wonder that US financial regulators like the Securities and Exchange Commission and the Federal Trade Commission keep a close eye on their activities, including how their fund managers vote.

Indeed, these funds are already heavily regulated, though in many cases regulations are tightened or relaxed at the discretion of these regulatory bodies whose commissioners are appointed by the president with the advice and consent of the Senate. Their focus and attitude towards regulating the asset funds market is therefore influenced by the party in charge. At the same time, Congress is responsible for introducing numerous bills directly related to the finance sector. It clearly does mutual funds no harm to be seen to be actively supporting the political ideology of the people in power. To do the opposite runs the risk of prompting greater scrutiny and stricter regulations.

A desire to cater to the political party most likely to craft regulation was underlined by the general disregard for US state politics. The party affiliation of the state governors of the underlying portfolio firms' headquarters did not impact voting behaviour. Instead, political catering is undertaken to curry favour with the lawmakers in Washington.

## **Need for disclosure**

The challenge is of course how to deal with this behaviour, which we define as "stewardship theatre". Given the increase in political polarisation, our findings have important policy implications for future regulation. Unlike the more transparent political influencing that comes from giving direct financial

donations to the individual parties, this behaviour is more subtle.

Fundamentally, it's a question of how to regulate lobbying or political pressure. Clearer disclosures of such behaviour would be one solution, but it's perhaps naïve to believe it's something that mutual funds would undertake willingly.

The upcoming US election offers the very real possibility of a change of political party in the White House. It seems likely it may also lead to very different voting behaviour among the top US mutual funds as they look to shift allegiance and maintain their political influence.

#### **Find article at**

<https://knowledge.insead.edu/economics-finance/voting-political-influence>

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#### **About the research**

"[Political Affinity and Mutual Fund Voting](#)" is a working paper.